

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2011-229-W/S**

IN RE: )  
 )  
Application of Daufuskie Island Utility )  
Company, Inc. for Approval for Water )  
and Sewer Rates, Terms and Conditions )

**DIRECT TESTIMONY OF**  
**TONY SIMONELLI**

1   **Q.    PLEASE STATE YOUR NAME, ADDRESS AND BUSINESS**  
2       **AFFILIATION.**

3   A.   My name is Tony Simonelli. My address is 30 Fuskie Lane, Daufuskie Island  
4       South Carolina 29915. I have been a real estate broker on Daufuskie Island for  
5       the past seven (7) years. I was previously Sr. Vice-President for Dendrite  
6       International, a technology firm associated with the pharmaceutical industry.  
7       Prior to that, I was Vice-President for Human Resources and Administration for a  
8       major international shipping company.

9

10   **Q.    ON WHOSE BEHALF ARE YOU TESTIFYING?**

11   A.   I am testifying on behalf of Melrose Property Owner's Association, Inc.  
12       ("MPOA"), and Bloody Point Property Owner's Association ("BPPOA"), both  
13       intervenors in this Docket.

14

1   **Q.     MR. SIMONELLI, ARE YOU AUTHORIZED TO TESTIFY BEFORE**  
2       **THE COMMISSION IN THIS RATE PROCEEDING?**

3   A.     Yes. The Boards of Directors of the BPPOA and the MPOA have authorized me  
4       to appear and present the views of those organizations regarding the rate increase  
5       application (the "Application") filed with the Public Service Commission (the  
6       "Commission") by Daufuskie Island Utility Company, Inc. ("DIUC").

7  
8   **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9   A.     I am here to provide the position of BPPOA and MPOA in response to certain  
10      aspects of DIUC's current application to increase its rates.

11

12   **Q.     WHAT IS THE HISTORY OF YOUR CONNECTION WITH DAUFUSKIE**  
13      **ISLAND?**

14   A.     I have been involved with Daufuskie Island since 1986, a property owner since  
15      1999, and a full time resident since 2003. I am currently President of the Bloody  
16      Point Property Owners Association and have been for the past six years. I just  
17      completed a two-year term on the Daufuskie Island Council.

18

19   **Q.     PLEASE DESCRIBE MELROSE PLANTATION AND THE MPOA.**

20   A.     Melrose Plantation is a largely-residential real estate development on Daufuskie  
21      Island. It was begun around 1986, and currently consists of 325 lots, 53 of which  
22      are developed and 272 of which are undeveloped. The MPOA is an association of

1 the owners of the developed and undeveloped residential lots within Melrose  
2 Plantation.

3

4 **Q. PLEASE DESCRIBE BLOODY POINT AND THE BPPOA.**

5 A. Bloody Point is a residential development on Daufuskie that was begun around  
6 1987. It currently consists of 110 lots, 20 of which are developed, and 90 of  
7 which are undeveloped. The Bloody Point Property Owners Association is an  
8 association whose members are the owners of developed and undeveloped  
9 properties within Bloody Point.

10

11 **Q. HOW DO OAK RIDGE AND BEACH FIELDS FIT WITHIN THE**  
12 **BLOODY POINT/MELROSE AREA?**

13 A. Both Oak Ridge and Beach Fields are served by the Melrose portion of the utility  
14 system. They are both largely-undeveloped tracts. Oak Ridge contains 60 lots –  
15 none of which are developed. Beach Field consists of 56 lots – 3 of which are  
16 developed and 53 undeveloped.

17

18 **Q. WHAT IS THE BLOODY POINT/MELROSE POA'S GENERAL**  
19 **POSITION WITH REGARD TO THIS RATE REQUEST?**

20 A. The Utility is proposing to increase the water and sewer rates it will impose upon  
21 our members by between 200% and 300%. An increase of this magnitude is both  
22 outrageous, and completely unsupported by the evidence DIUC is presenting to  
23 this Commission. The Utility has done an extremely poor job of managing the

1 system on the Daufuskie Island. This is a utility system that is located on South  
2 Carolina's southern-most barrier island. The Commission well knows from our  
3 night hearing that access to the island is by private ferry. There is no public ferry  
4 service to Daufuskie. DIUC's utilization of Guastella Associates to manage its  
5 daily operations from Guastella's offices in Boston is expensive and it is not  
6 working. Guastella has failed to properly manage this system on multiple recent  
7 occasions and many of these failures appear to be a direct result of its position as  
8 an absentee manager, located in offices some one thousand miles away. The  
9 Commission should deny DIUC any rate increase until it can first demonstrate to  
10 this Commission that it is capable of proper management.

11 For these reasons, the Commission should deny DIUC's request to  
12 increase its rates.

13

14 **Q. ARE THE EXPENSES DIUC PAYS IT'S ABSENTEE MANAGER**  
15 **APPROPRIATE?**

16 A. I do not believe so. For the year ended December 31, 2010, the expenses for  
17 Outside Management Services were greater than the wages paid to those who  
18 operated and maintained the system. We believe that a discrepancy of this  
19 magnitude is excessive. On-site management that is more connected with  
20 Daufuskie Island would not only improve services, it would also ensure more  
21 complete billing and would likely cost substantially less. It is entirely possible  
22 that an on-site manager would also eliminate DIUC's perceived need to hire  
23 additional labor.

1   **Q.     IN YOUR LAST ANSWER, YOU MENTIONED MORE COMPLETE**  
2       **BILLING. DO YOU HAVE ANY EVIDENCE THAT DIUC IS NOT**  
3       **UNIFORMLY BILLING ITS CUSTOMERS AND/OR UNDEVELOPED**  
4       **LOT OWNERS WITHIN ITS SERVICE AREA?**

5   A.    It is my understanding that DIUC may be failing to charge certain customers for  
6       utility services. Moreover, while we contend that DIUC has been unlawfully  
7       billing Availability Rates as Commission-established utility rates, it is my  
8       understanding that the Utility has also failed to levy those charges uniformly. For  
9       instance, I understand that DIUC has not been billing and collecting availability  
10      fees to property owners within the Oakridge and Beach Field communities. As I  
11      mentioned above, there are more than one hundred undeveloped lot owners within  
12      those developments.

13

14   **Q.     WHAT IS THE MELROSE/BLOODY POINT ASSOCIATIONS'**  
15       **POSITION IN RESPONSE TO THE UTILITY'S REQUEST TO UNIFY**  
16       **ITS RATE STRUCTURE?**

17   A.    The Commission should deny this request. Customers within Melrose and  
18       Bloody Point currently receive a 22,500 gallon water allowance per quarter. Since  
19       our sewer bills are based upon water usage, this allowance applies to the sewer  
20       rates that Melrose and Bloody Point customers pay as well. Haig Point customers  
21       do not receive this usage allowance. Instead, their water and sewer usage charge  
22       begins with the first 1,000 gallons of water a customer consumes. The quarterly  
23       water and sewer base charges that apply to customers within Haig Point are also

significantly higher than the quarterly base charges paid by those customers within Melrose and Bloody Point.

As a result of these rate differences, the average customer within Melrose/Bloody Point presently pays materially less for his or her residential water and sewer service than the average customer within Haig Point.

**Q. HOW WILL DIUC'S RATE REQUEST DIFFERENTLY AFFECT THE MELROSE AND HAIG POINT CUSTOMERS?**

A. It is easiest to see the difference by looking at a typical customer who uses exactly the 22,500 gallon quarterly allowance. The comparison is as follows:

**Dollar Increase of Residential Water & Sewer Rates Proposed by DIUC:**

	<b>Mel./Bloody Pt</b>	<b>Haig Pt</b>	<b>DIUC Proposed</b>
<b>Residential Water:</b>	<b>\$58.50</b>	<b>\$ 89.00</b>	<b>\$175.13</b>
<b>Residential Sewer:</b>	<b>\$58.50</b>	<b>\$101.12</b>	<b>\$188.49</b>

**Percentage Increase of Residential Water & Sewer Rates Proposed by DIUC:**

	<b>Mel./Bloody Pt</b>	<b>Haig Pt</b>
<b>Residential Water:</b>	<b>199%</b>	<b>97%</b>
<b>Residential Sewer:</b>	<b>222%</b>	<b>86%</b>

While Haig Point's 97 % increase for water (a *doubling*) and an 86% increase for sewer is certainly excessive, DIUC's customers living in the Melrose/Bloody Point developments will experience a 199% increase (a *tripling*) and a 222% increase for water and sewer, respectively.

1                   Eliminating the Melrose usage allowance and applying DIUC's proposed  
2 rates will, therefore, unfairly impact those residential water and sewer customers  
3 living in the Melrose and Bloody Point communities.  
4

5   **Q.   DOES THE UTILITY'S OWN RATE INFORMATION SUPPORT**  
6       **RETENTION OF THE CURRENT RATE DISCREPANCY BETWEEN**  
7       **MELROSE/BLOODY POINT AND HAIG POINT?**

8   A.   Yes it does. DIUC obtained the Melrose system out of bankruptcy. As I explain  
9 more fully below, it appears that the Utility paid little or nothing for the Melrose  
10 system. Consequently, while I am not a rate expert or accountant, it appears to  
11 me that the Utility's rate-base for the Melrose/Bloody Point portion of the system  
12 is almost zero, or, at the very least, substantially lower for the Haig Point portion  
13 of the system. Any water and sewer rates that are fairly based upon the Utility's  
14 rate-base must, therefore, be substantially lower for the Melrose/Bloody Point  
15 customers than they are for the Haig Point customers.  
16

17   **Q.   ARE THERE OTHER FACTS THAT COULD SUPPORT A DENIAL OF**  
18       **DIUC'S REQUEST TO UNIFY ITS WATER AND SEWER RATE**  
19       **STRUCTURE BETWEEN HAIG POINT AND MELROSE/BLOODY**  
20       **POINT?**

21   A.   Yes. It is important for the Commission to note that the water system serving  
22 Haig Point is completely separate from the water system serving Melrose/Bloody  
23 Point. While there is some overlap in sewer treatment between Haig Point and

1 Melrose/Bloody Point, the piping and lift stations are completely separate, and  
2 certain portions of the treatment are completely separate as well.

3 For these reasons, the costs of providing water and sewer to these two  
4 communities are largely separate and improvements to one system are not likely  
5 to benefit the customers of the other.

6

7 **Q. IS DIUC RATE APPLICATION CORRECT WHERE IT REPRESENTS**  
8 **THAT “THE PROPOSED RATES RESULT IN VERY SIMILAR**  
9 **INCREASES” FOR HAIG POINT AND MELROSE CUSTOMERS?**

10 A. No. Not only is DIUC’s statement in its Application Overview and Justification  
11 erroneous; it is based upon flawed and incorrect Application Work Papers.

12 DIUC’s Work Papers 1.1 and 1.2 purport to compare the percentage of  
13 increase at various water consumption volumes that DIUC’s proposed rates will  
14 cause to Haig Point customers with the percentage of increase for Melrose/Bloody  
15 Point customers. DIUC’s calculations are flawed, inaccurate and, misleading  
16 because Work Paper 1.2 fails to account for the Melrose/Bloody Point 22,500  
17 gallon per quarter usage allowance. DIUC’s representation that its proposed rate  
18 increase would roughly double the water and sewer rates for both Haig Point and  
19 Melrose/Bloody Point customers is incorrect.

20 As I have pointed out above, while DIUC’s proposed increase would  
21 double the quarterly charges paid by the average Haig Point customer, it would  
22 *triple* the quarterly charges paid by the average Melrose/Bloody Point customer.

23



1   **Q.     PLEASE EXPLAIN THE BANKRUPTCY TRANSACTION THROUGH**  
2   **WHICH THE DIUC CAME TO OWN THE MELROSE SYSTEM.**

3   A.    The Melrose Utility Company, Inc. (“MUC”), as well as 40% of the Haig  
4   Point/Melrose Wastewater Treatment Company (collectively, the Melrose utility  
5   Assets”) were owned by Daufuskie Island Properties, LLC (“DIP”). DIP filed  
6   bankruptcy on or about January 20, 2009. As part of that bankruptcy proceeding,  
7   the Trustee in Bankruptcy placed the Melrose Utility Assets up for sale. CK  
8   Materials, LLC, the owner of DIUC, purchased the Melrose Utility Assets,  
9   pursuant to the requirements set forth in the Order issued by the Bankruptcy Court  
10   Case No. 09-00389-jw, Doc 461, on September 24, 2009, and attached hereto as  
11   **Exhibit 1** to this testimony.

12           The Court approved this transaction as a “\$500,000 purchase” by CK  
13   Materials in exchange for the Melrose Assets. The Court ordered CK to purchase  
14   the Melrose Assets as follows:

15           1. CK “will assume and pay” to DIUC approximately \$241,000 in  
16   payables MUC owed to DIUC for DIUC’s management of MUC during the  
17   bankruptcy. We view this as an obligation that CK owed to the DIUC customers,  
18   who should have directly benefitted from this infusion of revenue.

19           2. CK was required to install and construct “at least \$150,000” in capital  
20   improvements to the Melrose Utility Assets. Again, we view this required capital  
21   infusion as to have directly benefitted DIUC’s rate payers.

22           3. CK must also pay DIUC the approximate amount of \$100,000 for  
23   DIUC to manage, repair, and operate MUC “for the period through December 31,

1           2009.” We view this CK obligation as also for the benefit of the DIUC rate  
2           payers.

3                     4. CK must also have paid \$20,000 into the bankruptcy estate,  
4           presumably for distribution to unsecured creditors, etc.

5  
6       **Q.     HAS DIUC FOLLOWED THROUGH WITH ITS OBLIGATIONS UNDER**  
7       **THE BANKRUPTCY ORDER, AND, IF NOT, WHAT ARE THE**  
8       **IMPLICATIONS OF THIS FAILURE TO THE CURRENT RATE**  
9       **PROCEEDING?**

10    A.    The Bankruptcy Court order obligated CK Materials to pay the DIUC  
11           approximately \$341,000 in operating revenue. In addition, CK was obligated to  
12           donate to DIUC capital upgrades of at least \$150,000. DIUC should have  
13           fulfilled these obligations sometime within the past two years. While we are  
14           attempting to learn whether CK fulfilled its obligations set by the Bankruptcy  
15           Court, we are concerned from its other irresponsible actions that it did not.

16                     The fulfillment of these obligations would have directly benefited the  
17           Daufuskie Island rate-paying customers, decreasing the current need that the  
18           DIUC expresses for rate relief. Moreover, CK’s fulfillment of these obligations  
19           would have likely avoided the failure of the wastewater treatment plant lining that  
20           has recently occurred.

21

1   **Q.    ARE THERE ANY OTHER FAILURES ON THE PART OF DIUC TO**  
2       **FULFILL THE OBLIGATIONS IT HAS UNDERTAKEN RELATED TO**  
3       **THE MELROSE UTILITY ASSETS?**

4    A.    Yes, there is at least one more. On October 9, 2009, CK Materials requested  
5       expedited approval by the Commission of its Bankruptcy acquisition of the  
6       Melrose Assets. As part of that filing, CK committed to merge both MUC and  
7       HPMWTC into DIUC, with DIUC as the surviving corporation, and both MUC  
8       and HPMWTC ceasing to exist as corporate entities. Based upon our counsel's  
9       check of the South Carolina Secretary of State's records, HPWTC was never  
10      merged into DIUC, and continues to exist as a separate corporate entity. Based  
11      upon my understanding of the historic ownership of HPMWTC, the stock of that  
12      corporation appears to still be owned, in total, by CK Materials, LLC, and not  
13      DIUC.

14  
15   **Q.    HOW DOES THIS FACT AFFECT DIUC'S CURRENT REQUEST FOR**  
16       **INCREASED RATES?**

17   A.    As I understand it, DIUC's request is dependent upon it establishing that its own  
18       corporate assets have a certain rate base, or value. HPMWTC owns the entire  
19       wastewater treatment plant that serves DIUC and its customers. If HPMWTC is  
20       wholly-owned by CK Materials, LLC, then its asset, the wastewater treatment  
21       plant, is not currently owned by DIUC and, therefore, cannot be included in the  
22       appropriate calculation of DIUC's rate base.

23

1   **Q.     WOULD YOU PLEASE DESCRIBE THE CURRENT STATE OF**  
2   **DEVELOPMENT ON DAUFUSKIE ISLAND?**

3       Property values on Daufuskie Island have plummeted much more than other  
4       communities in the area. Most properties are now selling for 60% to 80% less  
5       than their prices of four years ago. Mr. Bill Greenwood testified at the night  
6       hearing about a condominium next door to his that was purchased for \$680,000  
7       six years ago, and is now on the market for \$150,000. That story is the current  
8       norm on Daufuskie.

9               In comparison, prices for property on Hilton Head, while depressed as a  
10       result of the recent economic downturn, are only down 40% to 45%.

11              A problem is that property taxes are still computed based upon the pre-  
12       downturn 2007 valuations. It is extremely difficult for many property owners to  
13       pay these inflated property taxes.

14              The owners of the Daufuskie Island Resort went through bankruptcy, and  
15       the Resort itself has been closed since around 2009. This resort closure has  
16       caused many Daufuskie Island property owners to just give up their properties  
17       rather than carry the costs. Properties on the island are foreclosed upon every  
18       month and there are regular auctions of properties following their foreclosure.

19  
20   **Q.     ARE THERE ANY EXTRAORDINARY MAINTENANCE COSTS THAT**  
21   **DAUFUSKIE PROPERTY OWNERS MUST PAY THAT FURTHER**  
22   **INCREASE THE FINANCIAL HARDSHIP THEY ARE EXPERIENCING?**

1 Yes. As a barrier island, Daufuskie has experienced some extraordinary problems  
2 that property owners have had to rectify. One example is that property owners  
3 have recently had to build two groins in to the water to solve a major erosion  
4 problem. The State of South Carolina provided no financial assistance for this  
5 project. We also have a crumbling sea wall at Melrose that threatens homes along  
6 the beach there. Repairing this wall will cause another major expenditure.

7 We are an island that gets no help from the county or state; we have no  
8 regular ferry system other than the one that Haig Point Club and Community  
9 Association provides exclusively to its members. Some property owners within  
10 Melrose and Bloody Point have opted to join Haig Point, at great cost, solely in  
11 order to have a reliable and necessary link to the mainland.

12

13 **Q. HOW WOULD A RATE INCREASE SUCH AS WHAT DIUC IS**  
14 **PROPOSING HERE EFFECT THAT ECONOMIC SITUATION?**

15 The availability rates have always been a thorn in lot owners' sides, but we have  
16 paid them and considered them an unavoidable cost of having a lot with value.  
17 Now that lots are selling for as little as \$8,800 for a second row, half-acre with  
18 great ocean views, lot owners are questioning these rates. DIUC is proposing to  
19 increase Availability Rates so that the \$8,800 lot owner above would be paying  
20 \$687.32 per year – an annual amount that is almost 10% of the value of the lot.  
21 And, these persons are receiving absolutely no utility service in return for these  
22 Availability Rates.

1                   The rate increases that DIUC has proposed in this docket are both  
2                   outrageous and unsupportable. If the Commission approves DIUC's proposed  
3                   rate increase, *or even one-half of DIUC's proposed rate increase*, that approval  
4                   will immediately snuff out any small flicker of economic recovery that may  
5                   currently exist on Daufuskie Island.

6

7   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

8    A.    Yes it does. I appreciate the Commission's consideration of our evidence and  
9           the opportunity to present our position before you.

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2011-229-W/S

RE:	)	
	)	
Application of Daufuskie Island Utility	)	
Company, Inc. for Approval for Water	)	<b>CERTIFICATE OF SERVICE</b>
and Sewer Rates, Terms and	)	
Conditions	)	

This is to certify that I have caused to be served this day the **Direct Testimony of Tony Simonelli** filed on behalf Haig Point Club and Community Association, Inc. (“HPCCA”), Melrose Property Owner’s Association, Inc. (“MPOA”), and Bloody Point Property Owner’s Association (“BPPOA”) via electronic mail service as follows:

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s/ Carol Roof \_\_\_\_\_  
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May 3, 2012  
Columbia, South Carolina